# Panelists speak during AICA Summer Summit about real estate investing in interval and list closed-end funds.

Thursday, August 13, 2020

Randy Anderson from Griffin, Svitlana Gubriy from Aberdeen Asset Management, and Sean Morris from CIM Group were panelists at the AICA Summer Summit held on August 13. The moderator of the panel was Joshua Deringer, of Faegre Drinker Biddle & Reath, LLP. Read the transcript from the discussion below to hear the insight from the panelists.

Josh Deringer

Randy Anderson

Svitlana Gubriy

Sean Morris

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**Joshua Deringer:** I'll start and just introduce myself, and ask each of you to introduce yourself. My name's Josh Deringer and I chair the investment management group at Faegre Drinker,

which is an Am Law 50 firm of about 1,300 attorneys across 22 offices that was created this past February out of the combination of Drinker Biddle & Faegre Baker Daniels. Within the investment management group, which is comprised of about 50 professionals, we do work across a broad spectrum of the industry including private funds, investment advisors, broker-dealers, commodity pools, mutual funds, ETFs, closed-end funds, and interval funds. I in particular do a lot of work in the interval fund space across a spectrum of asset classes.

So maybe with that introduction, I'll ask each of our panelists to spend a little more time than I did talking about themselves, and their firm, and their experience in the real estate asset class within the closed-end fund and interval fund space. So Randy, maybe I'll start with you.

**Randy Anderson:** I'm sorry, you paused there for a second. Who would you like to go first?

**Joshua Deringer:** You.

**Randy Anderson:** Oh hey, great. Welcome everybody and thank you for having us here, I'm honored to be on the panel with such a good group. My name's Randy Anderson and real quick about me, I started life I guess I would call myself recovering academic. I was a professor for about half my life and then decided to move to the industry side and did lots of different things. A big part of it was running research at a few companies, like Marcus & Millichap, and I was a VP of research for Prudential.

I found my way into the asset management business and really the acquisition side of real estate at CNL, which is a competitor company to where I'm at now. Today through a long career, I'm getting a little long in the tooth, I'm at Griffin Capital, we've been around for about 25 years. I came to Griffin Capital to start up an interval fund business. And so we have two interval funds, I'm only talking about our real estate one today. So we have what's called the Griffin Institutional Access Real Estate Fund, it's about $3.8-3.9 billion dollars of assets, been around about six and a half years. It's a public-private mix of real estate and we'll talk about that later in the program.

And then we also have a credit interval fund, it's a high-yield credit interval fund and it's a partnership with Bain Capital out of Boston, really pleased to do that. I won't go into details about other things at Griffin other than we have a non-traded REIT platform, we have a 1031 exchange platform. We do have a qualified opportunities zone product in the marketplace that just recently closed as well, so we're kind of a diversified real estate shop primarily with the credit being the exception from real estate.

**Joshua Deringer:** Thank you. Maybe Svitlana, can you go next?

**Svitlana Gubriy:** Sure. Again, welcome everyone to the panel. My name is Svitlana Gubriy and I'm head of global REIT funds at Aberdeen Standard Investments. Aberdeen Standard Investments was formed several years ago through the emerging of Aberdeen Asset Management and Standard Life Investments. Our team is a part of a much larger real estate department within Aberdeen Standard that manages around $45 billion in assets on the real estate side across private market, direct real estate, real estate multi-manager, and real estate securities. Prior to this

work, I started my career in private equity and real estate investment banking and I moved into investment management over 15 years ago.

So this closed-end fund that we manage is Aberdeen Global Premiere Properties Fund, we took over the management of this fund two years ago and we had to reposition the portfolio into 2018 to make sure that the fund is fit for purpose and delivers what it should deliver to the investors, a sustainable high distribution yield. In addition to that we manage a number of other global listed real estate funds, real estate securities, REIT funds. And in the U.S. we also manage two 40 Act open-ended real estate funds, one is focusing on the U.S. REITs and the other one [inaudible] U.S. REITs.

**Joshua Deringer:** Thank you. Sean?

**Sean Morris:** Yeah, thanks. So I was just thinking when Randy started, I guess we should probably put a little background in here and I think this is maybe an interesting story because we have lots of young people at our company that are starting out at sales desk positions, and have hired some people where this is their first job out of school. I was thinking that I'm now 20 years in the industry and I started really right after the dot-com crash in 2001, and remember after being recruited by all my buddies that you got to get into financial services because it's just golf balls and steak dinners, and you just have fun. It was a different business then.

When I started it was right at the crash, and at the time it felt like it probably does to many young people today, will the world ever recover? I spent the first, call it 12 years in another sector in the industry and got into real estate in 2012 on the retail side really focusing on broker-dealers and RIAs. My firm that I worked for was acquired by CIM in 2018, and so CIM's $30 billion today in assets, done about $60 billion in deals over the years. It's a private equity firm that's kind of owner, operator, developer and lender with a very specific community based approach that's focused on the transitioning urban communities across the country.

So we typically invest in the high barrier to entry markets, call it the top 15 MSAs in the country, and really look for where opportunity is to help grow areas that are next to or adjacent in the central business district that are kind of up and coming. So when we do that, this all started really kind of opportunistically from a development and repositioning perspective in the late 90s, the firm was started in 1994. And then we saw as these communities adapted to what we all call today, live, work, play, 24-hour kind of markets, we saw stabilized assets in those communities were out performing and getting outsized rents and doing very well.

So we kind of expanded into stabilized and core, core plus investing after the financial crisis when banks really stopped lending on a lot of hairy construction, heavy repositioning, ground-up type deals. We got involved in lending specifically in that kind of construction space at an institutional scale, and then that kind of trickled over to opportunity zones a few years ago. That came up in about half of the areas that we already invest, already overlap with what were recently considered opportunity zone.

So CIM had always raised money institutionally. I'd say 80+% of the assets we manage today are the largest investors in the world, sovereign funds, insurance companies, pensions, etcetera. And

about three years ago my role was to help figure out how to take what you've heard this trend happen for years, which is how do you bring its true institutional investments down into the high net worth space, the RAA, and eventually the retail space, and still give them access to institutional investing? So one of the things that we're doing in this space that's relevant today is one of the newer players to this space in the interval fund structure, but certainly not new to investing in the real estate arena. So this should be an interesting discussion today, I'm really looking forward to it as we get going.

**Joshua Deringer:** Thank you all, that was really good. So I guess to start, and we were talking a little bit about this before the panel started, but obviously many industries and sectors have been affected by the pandemic and real estate certainly is front and center in terms of the potential effects of this. So I'd ask each of you, and maybe Svitlana, you could talk about how the current situation has so far changed the industry and just the outlook from an investment perspective.

**Svitlana Gubriy:** It's a good question. And if you take a step back and think about history and historical precedents, every pandemic in history changed the way people live, and work, and communicate with each other. Again, there was a lot of articles about Spanish flu and how it changed labor relationship and how it changed the way people think about healthcare. I think this pandemic is not going to be different, but I don't think it will completely alter the way we live. It will accelerate certain trends that we've already been witnessing, whether it's online retail or logistics or supply chain management or the role of the digital infrastructure in our lives.

And it will have a reflection in real estate, because if you think about real estate, what is real estate? Real estate is a reflection, is a tool for economy and people to live. So how the economy will change, how our social lives will change, real estate will reflect that and real estate investments, real estate assets will reflect that. Some real estate asset subsectors will eventually die probably, some real estate sectors will appear. And again, if you think about listed real estate indices, this is a theme that's very close to my heart, and how they've changed over the last 20 years, it's absolutely unbelievable.

If you think about one of the U.S. REIT indices, today it will have 30% of the index in cell phone towers, data centers, and industrial. If you go back 20 years ago, cellphone towers, what is that? Data centers? Physically it was a completely different building 20 years ago. So 10 years fast-forward, whether we're going to have self-driving cars or not, but it will change the way our cities look and the way people spend their leisure time. So this is what we as real estate investors constantly think. Yes, there are short-term impacts on cashflow and valuations today, but for us and because real estate is a long-term asset class, we're thinking about the future five years from now, 10 years from now, trying to identify those opportunities today.

**Randy Anderson:** I think those are tremendous points, I agree with everything. I'll just add a little context and maybe step back even a little bit further. It's interesting, all the bad headlines have to do with real estate. Because at some level when you go into a quarantine or a shutdown it's like, "Hey, I've closed place." Well, real estate's a place and so that must be bad. But the truth is that collections have been really good. Real estate has durable, sticky income, and when you're investing like most of us do in real high-quality properties and high-quality markets, you have

tenants with balance sheet capability that can sort of move and walk across those divisions, you can be very capable.

It's funny all these headlines about real estate and then yet the overall stock market is up at all-time highs. Which you look at what's happen in on earnings per share, I think consensus estimates are down 45%, Goldman had it at maybe 60%. But you're looking at rent collections in the 90s, they're doing pretty well outside of maybe a couple of impacted sectors. So number one, I think it's gotten a little bit dinged up in terms of the reality versus perception, which creates opportunity, particularly on the public side as you were talking about. As some of those markets are really trading at discounts to NAV where I believe there's some tremendous investment opportunities.

I do think that clearly some of the trends are just accelerated. This whole idea of moving from retail to industrial has been going on for five or six years, it just accelerates that. I don't think that's a big change, that's just a thing that's in process and moving faster. I do believe that it's very interesting on the indices because we haven't seen it on the private equity side really like in the U.S. these ODCE diversified funds, you haven't seen as much moves into the things where technology lives on the ground in data centers and towers. And I also think another burgeoning sector that you'll start to see more and more of is life science, integration of technology in biology today I think will be tremendous.

I do want to touch on two things that I think have gotten particularly bad press, and then I'll try to leave a little meat on the bone because there's only so much time for everybody here. On the office side, I think office has challenges. It's actually my least favorite asset class just in general over time because it's got huge cap backs, everybody underwrites it as 5-10% VIC and it's always 12% VIC, it creates problems on a risk adjust return basis. And it does have a technology headwind, however the complete end of office has been largely overstated.

Good quality office, there's a reason that people need that office and they're going to be in that office, and people have taken the headlines way out of context. For example, the Morgan Stanley CEO, the headline on *Bloomberg* was they're going to have almost no office footprint. Well, if you actually go back and listen to what he said, he said, "I expect most of the people in the office most of the time. What I'm going to do is chip away at non-customer facing jobs, back office jobs, and branch jobs." Which has been happening for a long time as technology has been increasing.

I'm going back to being in the business for a long time, I certain was around during the dot-com boom and there were articles written there'd never be another office building built. Well, a lot of office buildings were built and there's a lot of firms that sent their people home and brought them back like IBM. And then in 9/11, we're never going to have another office building and nobody would ever rebuild downtown Manhattan. In terms of the biggest office buildings all across the globe were built during that time period.

So there are challenges and there are headwinds. I'm a third of the index on office, so I don't want to be a big office proponent, but this idea that nobody wants to go to office is not probably a reality. If you bring somebody in, you need to train them, you bring them to the culture. If

you're client-facing, that ability to bring them into that type of office is important. If you chose to be at 9 West or one of the best office buildings in Manhattan, there was a reason. It was important, it was core to your business, and you probably had a big balance sheet such that you can work from home like we're doing today, but you want to get back to that office.

And a recent study just came out and said, "Listen, productivity was up for awhile but now productivity is down." We've got people at our firm who are just dying to get back to the office. We're trying to figure out how to stagger the workers enough because they want to be more productive. They want to be able to separate work and life, and so I think the end of office as we know it has also been vastly exaggerated. And then the last thing is, multi-family has always been defensive, it's always been the best play during economic downturns and people are not paying their rent. Multi-family on the private side still had the highest level of collections out there. It's defensive, it's need based. Yes, there's been some push in home ownership but it's okay to have multi-family do well and homeownership at the same time, that's actually happened through most of the data that we've looked at over the last 40 years. Anyway, I'll stop there.

**Joshua Deringer:** Thank you. Sean, anything?

**Sean Morris:** I'd just maybe complement that, I think those are all great comments. The thing that we might look at a little differently is we have a national footprint in the major markets, and so to Randy's point that what's happened now is accelerating trends that were already in motion. The retail e-commerce thing was already happening, it just wasn't happening as fast as the pandemic. A lot of people are not aware that over the last three to four years, the financing of mortgage REITs and a lot of the private debt funds went back to significantly over-leveraged positions on bank repo lines. Four or five times levered that had marked to market provisions that triggered in March as we saw in the mortgage REIT world.

So that's one thing that's changed dramatically that really hasn't hit many people's radar, is when you look at just how real estate is financed right now is an entire sector of mortgaged REITs now are focusing on stabilization of their book of business. Most of the debt funds that finance that way have to do the same, so their origination teams that would typically be out in the market lending on new deals are all focused on stabilization. At the same time, values have come down, whether they're right or wrong, that's up for debate. There are a lot of assets that are hard to value today because it depends on what assumptions you're making. And so there's been this liquidity sucked out of the market place that is going to have an impact on pricing going forward to get new deals done in the next phase that hasn't come yet, which is distress.

A lot of these trends are just being accelerated by what's happening today. Certainly work from home, I agree with everything Randy said on the work from home. Talk to anybody that has kids that can walk through the age that they can use a phone, and they're ready to go back yesterday. I'll raise my hand to that as well. I think the thing about it is, what does the model look going forward? It's accelerating things companies didn't have to think about. You had a section of your employment base that you could have had work from home but it wasn't culturally acceptable.

I live in the Boston Market, everybody that grew up in Boston at some point in their life worked for either State Street or for Fidelity. Fidelity has always been a work from the office, no one

works from home. Well, now they had to work from home, so you have to consider that when we go back to whatever the new normal is. Maybe there's a sector of our business that can stay at home. There's probably a section that can commute in hotel and do a couple days a week. And the people that appeals to, those will be companies that they want to work for. And certainly you're going to need more space for everybody else that's staying there, so that could net the same amount of square footage. So debating office, I feel the same thing, time will tell but it's certainly not going away.

Last thing I would say is, when you have a national urban footprint like we do, you can pivot your strategies. And so we see the non-drive to work markets as not only being hit the hardest but also going to be the longest to recover. Eighty percent of the net migration to Florida and Arizona right now is coming from New York and San Francisco only. That shouldn't surprise anybody, right? Because you have very expensive places where people have kind of said, "I don't have a job anymore. I'm living on this unemployment or government stimulus, so where can I go to get a lower cost of living and have opportunity similar to what I had?"

Where 20 years ago, kind of tagging onto what Svitlana said is, you had to be in certain markets. If you were in finance, you had to be in New York or Boston or Chicago and that was it because that's where the talent was. If you were in entertainment, you had to be in Hollywood because that's where the business was. And now you've seen all these major firms move to different cities for lots of reasons, and seen growth of cities like Austin, and Nashville, and Atlanta that 10 years ago, 20 years ago really weren't on the radar as top 10 cities that people wanted to live in, that were business friendly, etcetera.

I think the other trend that's happening is there's going to be some migration as a result of this and it'll force everybody to think about things a little differently. But the takeaway is, some markets will contract a little bit and figure it out. I think we've seen New York be the most resilient city in the world through a lot of crazy things the last 25 years. But other cities will be the benefactor of that migration an they'll grow and see a lot of prosperity above what national averages are.

**Randy Anderson:** I like that point. I know we want to move onto a different topic but interesting on that. One of the interesting things about that is part of that is also continuing people are leaving New York for Florida and lower incomes. But even California going to Phoenix and leaving New York to go to Florida, I think that's going to accelerate a lot. I do agree with that 100%.

One of the interesting things about whether it's an interval fund or whether it's a REIT strategy if you will, is we've got a benefit of not just being direct property owners. If you're a direct property owner and all of a sudden that change happens quickly like he gets hit with the pandemic, how do you go sell that property that you don't like in those markets and transact at the wrong time? If you own a security you can do it seamlessly. On the private side, you have a no bid-ask spread, you can follow those growth trends and move in that direction. Over and underweight on the REIT side, and you can certainly do it very, very quickly and adopt and you can move into these work from home stocks real quickly. And then also as you see it getting closer to the vaccine, Svitlana can just put her foot on the gas in terms of all of the opening

stocks as well, and you can kind of do that in a cool way. Having a fund structure allows a little bit of the best of both worlds for both of us on the interval fund and also on the pure liquid side. I think it's a benefit of not just being a pure direct only strategy.

**Joshua Deringer:** Thank you Randy, that's a really good point that actually leads into a question I was going to ask. Which was about opportunities, Svitlana, that you're seeing particularly in the public markets as we move through this that might not be available on the private real estate markets but through strategies like yours, you're able to take advantage of.

**Svitlana Gubriy:** I think one of the key advantages of public market, and Randy actually mentioned that, is discount to NAV. So today we have a number of real estate sectors that trade at [inaudible] discount, even at discount to adjusted NAV. In our underwriting, we take into account our forecast of future cap rates and rental growth, and even taking those haircuts we're still seeing discounts to NAV. Public sector investors tend to react too quickly and we still have a lot of ETF passive investors present in the market and money comes and goes, that for us, for active investors creates very unique opportunities to take advantage of that. And we've done it in April when there was sheer panic in the market.

And for us because we are a global investor and this fund is global, we've seen how this pandemic started in China and Hong Kong, we saw how the markets reacted, initial panic and then recovery. So for us it was almost a model behavior for the U.S, so when we [inaudible] in March, our analysis was, let's take a look at what we see potentially happening in the next three, six, 12 months. And if we see mispricing, and we saw a lot of mispricing, let's take advantage of that because the market will recover as the situation improves. And that's exactly what happened.

So this ability to be tactical while remaining fundamental in our approach and looking at fundamental real estate, but we can be quickly adjusting our position in the fund, so this is very important. And for us because we're a closed-end fund, we have permanent capital, so we can be more strategic in those allocations. So we don't need to think about inflows, outflows, redemptions and we can take position in the stocks that may take three, six, 12 months to recover. So this is another unique opportunity.

And one more thing I wanted to mention, because it's a closed-end structure and the funds trade typically at discounts to NAV, and those discounts can vary quite a lot. So in the middle of March, all closed-end funds were trading at very wide discounts than they narrowed a little, but are still trading at discounts relative to the historical averages. So effectively now investors have the ability to buy real estate stocks that trade at discount, still at the position of discount to NAV. And I'm not saying that that discount to NAV will close completely but it will narrow as investors will be able to take more risk on environment returns.

**Joshua Deringer:** That's helpful. And I guess for Randy and Sean, in an interval fund unlike a traditional closed-end fund, you don't have permanent capital. It's limited liquidity but you have liquidity for investors. But conversely, those funds tend to have a mix of both private exposure and public exposure. I guess particularly with the private investments, how do you balance the time horizon for that type of investing, particularly through volatile markets like this with the constant capital, with the ins and outflows?

**Randy Anderson:** I'll take a first stab at it. First of all, an interval fund isn't for every kind of investment. In my view, you should only use an interval fund structure if having a combination of some less liquid and liquid vehicles together create a really good risk-adjusted opportunity for the investor. And you're always buying and selling at NAV for that fund, so you don't have the fluctuations plus and minus that. Which can be a benefit obviously, if you can buy a discount to a discount.

But in real estate, and this is going to go back to my really nerd days that I started out as a recovering academic, I edited the *Journal of Real Estate Portfolio Management*. And in editing that journal and even writing a lot of the articles it showed that a combination of public and private real estate securities together give you the best risk-adjusted return over time. And in fact we did a 20-year study just a bit ago, put one of the periodic tables out there, and we had-- I think it was 17 different things that we invested in. Whether it was the S&P 500, or whether it was combinations of stocks and bonds, global stuff, different kinds of hedge strategies. And the number two total return over the 20 years was a 70% private real estate, 30% public real estate.

The only that performed above it was public real estate in and of itself. And public real estate in and of itself of course, because it's a small market, it's got the market capital of just a few Facebooks if you. And therefore all these retail flows that create opportunities also create a lot of volatility. So when you go from number one to number two, you also reduce your [inaudible] by 30% in that process. so combining public and private makes sense.

If you have a strategy that's best suited for all private, then don't do it in an interval fund structure. If it's something where you can have all liquid securities, don't do it in an interval fund structure, do an open-end fund structure or do a closed-end fund structure. It's only when they come together I think is where you net opportunity. So for us we always maintain enough liquidity that we don't have to draw on our private funds as our short-term source of capital where you're trying to sell something at a fire sale rate or something like that. We only invest on the private side in private securities that are open-ended in nature, so you can get in and out on a quarterly basis.

Now one needs to realize when you manage these things though is that when you really need liquidity, you're not going to be able to get all the money that you think you can get out of these private open-end funds because they themselves can gate. It's not a mandatory liquidity involved. So we maintain a big chunk of liquid securities, we try to keep around 30% plus or minus, and we have big lines of credit. Lines of credit can serve multiple purposes. One, in the right environment you can use it to grab returns. You can also use it to manage excess cashflow when the private funds aren't available so you don't get out of line. But they can also serve as additional short-term sources of liquidity as you're balancing out your cashflows.

But it's very, very important to be liquid, because what you don't ever want to do is be in a situation where you're dumping something at a fire sale to meet that next quarterly redemption. So as long as your strategy is one where it makes sense to combine public and private, it's a great structure and it's not a burden, it's just a good thing for the product. And there's lots of things, there's credit and other strategies where public and a private mix works really well as well.

**Sean Morris:** We have kind of a unique structure in what we're doing in the interval fund space, because instead of having the majority of the assets allocated to other institutional funds to get access to that type of investing, CIM is an institutional manager. We have a very large core fund and core capabilities and vertically integrated firm with in-house development, capital markets, property management, leasing all kind of under one roof. So we approach this as a way to give investors not just direct access to institutional funds but direct access to the assets directly, and so our fund structure is kind of a split between real assets and credit.

The reason is that on the credit side you kind of have a hedge against inflation and interest rates. I should say interest rates more than anything. On the real asset side you have a hedge against inflation. So they're complementary in terms of how they work together. But through CIM and also an affiliate company of CIM called OFS out of New York, which is a little over 2 billion in AUM today, but it's done about $12 billion in deals over the last 25 years. The combination of the two allows us to use in-house sourcing for both liquid and illiquid investments. So on the real asset side, that's going to be some direct real estate investing, some direct infrastructure investing. We have a $2 billion infrastructure arm that's really focused on fundraising institutionally. And then mortgage debt.

So on that side, rather than going into those funds, this fund has exemptive relief to co-invest alongside those deals and share part of the equity in a core investment or the equity in a debt investment. On the corporate credit side, there's huge liquid market in broadly syndicated loans, which in today's market that's somewhat dislocated, you have the ability to pick up some opportunity at a discount and still keep your liquidity at the asset level on the broadly syndicated loan side. So we can move liquidity within the investments in the fund but not necessarily just make it public-private, but we've separated it by way of the way that we're investing at the asset level inside the fund.

**Joshua Deringer:** That's helpful. And for the audience's benefit, Sean referred to exemptive relief, and that's what the SEC refers to it as 17(b) co-investment relief, which essentially allows the registered fund to invest alongside affiliates and privately negotiate transactions. For anyone who's been through the process of getting exemptive relief, it's not easy. It's getting better but it's still a long an onerous process. And then operating under the relief is also not particularly-- it's fairly prescriptive, it also for instance requires the board to prove the allocation of every transaction that you do. So that's one of the things that as the SEC looks at the growth of some of these fund structures like interval funds, there's been a lot of pressure on them to make that process more streamlined, and efficient, and useable.

And that actually leads me to a question I guess for Randy, because there's been some talk over the last couple minutes about the direct investing or investing in funds. As you may know, many of the funds I know that your fund invests in are 3(c)(5) real estate funds, but they can also be 3(c)(1) or 3(c)(7) funds. And the SEC going back to the 90s has had this informal policy limiting [inaudible] from investing more than 10 or 15% depending on who you talk to there in those types of funds. And as recently as last week, Dalia Blass who runs Investment Management at the commission has suggested they may open the door to that policy and get rid of it. So I guess I

question I have for you is, do you think a change to some of the limitations and the private fund limitation in particular, will that open the investment horizon within real estate?

**Randy Anderson:** It's interesting. I think some of the rules and regs are important, and I think the SEC has taken a pretty nice good balanced approach actually at making sure that these investments are suitable in the sense that they are suitable. I think the broader question is that interval funds all get lumped together, and even outside of whether it's a direct investment or it's whether one of these private funds that can be categorized in different aspects you invest in.

You can put anything in an interval fund structure, so when you think about risk and what kind of risks people can take, maybe the SEC in those contexts are worried a lot about hedge funds and underlying fees or different types of risk, which are all very valid. There's still a tremendous amount of risk one could take under the hood that's sort of outside of that. So you could put 10x levered type product within an interval fund. You can put almost anything within an interval fund within the limits that are there.

I think the comment is one, I think the SEC has done a pretty nice job. They've been pretty balanced in how they look at stuff and they're pretty easy to talk to when you're explaining what your investment strategy is. I think the bigger question is that the industry needs to get a little bit bigger because everybody talks about interval funds together, so our collective strategies even on this call are completely different and how you'd value it. They're not substitutes for one another, they're compliments for one another. There's credit funds which are completely different than a private equity fund.

I think at the end of the day a lot of it's going to be down to really good quality diligence and making sure people understand people understand what's under the hood, and what risk you're actually taking, whether it be investing in underlying vehicles that they themselves are risky. Or yes, you're limited to thirty-three and a third at the fund level, but there's a whole bunch of ways to invest in things that have a lot of liquidity or a lot of hedge strategies that have a lot of underlying derivative and other types of risks that are potentially allowable.

So I think right now I'm actually pretty pleased with how thoughtful I think they've been in the regulation process of these funds. We have a lot of flexibility but yet it's not so flexible I think that you can just get through the process without a reasonable business plan or reasonable set of investment opportunities.

**Joshua Deringer:** I guess maybe for Sean, do you think following up on the point Randy just made about the small number of funds and lumping all interval funds together, does the industry need to get bigger so that there's more competition for there to be broader acceptance of these funds in the distribution channels, whether it's the wire houses or RAA channels?

**Sean Morris:** I'm not sure if it needs to get bigger, I think market cycles help work a lot of things out. The general broker-dealer platform, whether you're talking about independent broker-dealers or the wirehouses, you kind of have this limitation of offerings by nature. They'll do all the due diligence work so that the advisors that are using these funds don't have to think about diligence. And when that's the case, a lot of the stuff that we're talking about that's the minutia

today, is not even on the table for discussion, and so it's just a distribution rights discussion. It's getting out and meeting those people, helping them understand your story, where you fit, how you compare, contrast to other offerings.

But those offerings are pretty limited. On some broker-dealer platforms it could be one or two interval funds, on others it might be a handful. But I think when you go outside of the broker-dealer channel, and my group spends a lot of time in the private wealth space, RAA, the large aggregators, and even surprisingly into the multi-family office space, where you have let's say it's not really family office level investors but you can aggregate your services at that level and an advisor might have 10, 20, 30 clients but all very wealthy. I think their universe is anything you could invest a dollar in, and so they don't have-- I wouldn't call it a restriction, but a truncated list that a broker-dealer has.

So they have to do due diligence, so kind of a plus and minus. The RAA that has to do their own diligence has the world as their oyster, but they also have to figure out how do you take a list of what could be dozens of interval funds? You look at these Stanger Reports and things that come out, there's all kinds of funds on there I see I've never even heard of, never ran into them. Performance is terrible and I just go, "I don't even know what that is." But somewhere someone invested money in those. So if you're new to the space and you don't have some sort of structure to help you evaluate, then I think the selection is daunting. You also have different firms based on size and capabilities that have different distribution education to come and say, "Here's what you should be looking at." So I think it's a good thing.

There's a reason why you have the broker-dealer layer of due diligence, but I don't know if having more funds is necessarily the answer, but maybe providing more guidance on how to evaluate the firms. And that could probably be brought back to the broker-dealer level, and I'm thinking not just the larger firms but even the smaller levels, and giving some sort of framework to say, "You need X number of funds to really have diversification." And we all know that if you're the one or two funds on the platform, you would actually prefer not to have anybody else on there because it's great to be one of two games in town, and I've been on both sides of that in my career. But I think if there's some framework to say, "If you have these three or four or five fit these boxes and there's some guidance towards how to look at due diligence," then I think we're moving in the right direction for both types of advisors.

**Randy Anderson:** I'm going to agree with that. I agree with it fully, let me just add one part to it. For better or for worse I was one of the first couple interval funds on there and I was on all these panels, and nobody was in the room, nobody cared at all about it and that was a really bad time. So to get up to at least to the critical mass we are it seems strange, why would you want some competition? I'm super glad that the big institutional names, CIM being one of them, and the Blackstones, and the BlackRocks, all the great institutional players are there. Because whether we need more funds or not, we can talk about forever and I agree a lot with the education, but we did need more people than two or three of us in there to make sure that it wasn't just a fly by night, it's here, it's gone, it's a deal. We now have an industry, and in the biggest and best asset managers in the world are saying this is a structure that makes sense for certain kinds of assets. I hated sitting in the room all by myself talking to myself, it wasn't that much fun. So I'm glad you're here is one way to say it.

**Joshua Deringer:** So Svitlana, in the subject of distribution, obviously a closed-end fund, it's a different type of offering. And we've seen in the closed-end fund market after, what was it? A couple years ago there were only a couple new issuances and then there were I think maybe nine last year or so. I think there've been five already this year. In the current market, particularly with COVID, what do you see the market for right now in terms of closed-end funds and particularly with a focus on strategies like REIT strategies?

**Svitlana Gubriy:** Prior to COVID, the market expectation was quite strong. We did expect a resurgence of closed-end fund offerings this year. You're right, we saw a couple of them after the COVID, actually right now. But this market to be quite honest has never recovered to pre-GHC level, and when we look at closed-end market for real estate GHC cleared a lot of competition, I'll be honest with you. So right now in the real estate space, effectively if you exclude interval funds, if you look purely at closed-end vehicles, you have six, seven layers.

They all have slightly different strategies, some of them use more credit so there is more fixed-income component there, so it's not exactly just real estate. Some use very aggressive leverage levels, some are more conservative, so there are some differences there. But in terms of the players, effectively you have not that much. And given that the funds are trading at discounts, it's very difficult to raise new fund and new equity. But if you think about that from the investor standpoint, you have existing vehicles with track records, and all of them are managed by highly reputable firms so there are no random people who just happen to be in this space. So effectively you have institutional capital behind it and institutional machines behind it.

And from investor standpoint, if you can buy something at discount it's a good way to invest in real estate. And especially if you think about from the portfolio standpoint, if you can combine closed-end funds, interval funds, and even open-ended vehicle, you can create a very interesting distribution profile and a capital growth profile. So it's all about managing a portfolio and putting different types of risk and return in your portfolio depending on your objectives.

**Joshua Deringer:** So I'm going to turn to a slightly different topic and something that Sean talked about a bit at the beginning of this panel, which is valuation. Obviously with any registered fund, whether it's a closed-end fund or an interval fund, fair valuation is important. It's one of the regulatory hot buttons and a process the SEC is looking at modernizing right now. It's something boards of these funds spend a lot of time focused on. And for the audience, just so you know, interval funds require pricing at least once per week, and leading up into the repurchase periods you need to trike a daily price for five days before. So you have frequent valuations.

I'd ask both randy and Sean, could you just talk a little bit about that process, particularly with respect to the private investments that you're making and what's involved in fair valuing securities that frequently?

**Randy Anderson:** Sean, you want me to go first or you? It's up to you.

**Sean Morris:** Yeah, either one. You can go first, I'll just add on top of that.

**Randy Anderson:** Okay, well ours is pretty simple. We invest in other people's private funds on the real estate side. It's different for our credit fund, which is probably more similar to what Sean will talk about. So in our private funds, the private funds we invest in are all-- they're all in defined benefit plans, they have third-party appraisals, usually Altus is managing those appraisal processes. They're done so well because they've been under a microscope for 40 plus years. They have consultants looking at them, they've got regulators looking at them, you know the drill.

So once a quarter I actually get a price from those private funds, and that's a price, it's not just a price that I receive, it's also a transaction price. That's the price in which I would buy more shares from that fund. It's a price I'd actually sell shares back to that fund. It's the price where you dividend, reinvest, etcetera. Now going back to your point, there's things that have to happen in the middle. So there's this whole group of daily valued real estate funds that are part of another group that has to engage in best practices on what you do to value your fund on a daily basis, and that includes taking into events like a shock that might come from a pandemic. Taking into effect the lease that might expire. Taking into effect changes in the debt marked to market conditions that make them along the way have to value their fund in real time. And taking information to your advantage in real time and make good marks on those processes.

The appraisals, while they may be once a quarter formally, they're moving through those appraisals on a very frequent basis and you're getting some full appraisals all along the way as well as desktop appraisals as you go. So fortunately for us there's a whole bunch of these, they existed long before the daily NAV rates existed. They were effectively daily NAVs wrapped up as annuities. And so there's this whole group of daily priced securities, a lot of them are wrapped up as annuities and they provide a daily valuation. And all their daily valuation has to meet all these rigorous tests that it's actually a fair transaction price.

We create an index of those daily valued securities that are lifetime securities just like we invest, the same property types, the same markets, and we mark our private funds to market based on the movements of those private funds. And any difference that we have can't persist for long, because once we get the value on a quarterly basis from each private fund, we would make an adjustment and start that process again. And it's worked really well. It's worked so well that at times we've had our auditors say we should be in the business of selling that because it does such a good job at managing and moving through the market.

And it should by definition, because the same people that are appraising the properties, understanding market assumptions are the same people involved in marking those privates funds on a daily basis for us. And so by the time we get to the end of the quarter, we're pretty much right on top of the numbers that we get from those private instruments. So for us, there's no [inaudible], no assumptions. Portfolio managers aren't going, "Hey, I wonder what the cap rates are going to be," or anything like that. It's pure hands-off, we handle it like you would do like in a mutual fund.

If you had a fund of funds mutual fund and for some reason one of your funds didn't price, best practice would be you go find another mutual fund that's highly correlated with it and you'd use that price until you reveal it. It's effectively that system applied to our par book.

**Sean Morris:** One thing on that. We're looking at it from the position of the core manager. So typically interval funds that invest in real estate are going to allocate the majority of their private allocations to ODCE, either ODCE core real estate funds or funds that benchmark to the ODCE. The ODCE for those of you who are not familiar is essentially the large NCREIF benchmark that's used, it's over $200 billion in NAV. It's probably the source for the largest source for liquidity in the institutional market place because on a quarterly basis funds go there to rebalance their buys and sells. So even in a net outflow year like 2008, you still see $5 billion of net inflows from funds that are managing their portfolio.

**Randy Anderson:** And dividend reinvestments, etcetera.

**Sean Morris:** Yeah. So our fund that we launched that's an institutional core fund four years ago joins the ODCE this year, so it's been compliant and met all the regulations since inception. And benchmarking to that, we'll join and be the top performer by a long, long way for a number of different reasons that are not relative to this call. But from a valuation perspective, I think it is, and here's what that is. So to Randy's point, Altus is the third-party valuation firm for, I think it's like 19 of 21 or 23 of 25 of the funds. Almost everybody uses Altus. And one of the things that they did this quarter, for Q2, was they really decided that they'd focus on incorporating cashflow changes, so like collection losses, rent relief amendments, and things like that. As opposed to making changes on market assumptions, rent, leasing assumptions, cap rates, etcetera.

So that resulted in a very, very, very conservative write-down on all asset classes. So general recommendations were kind of 0-5% on some asset classes and a few maybe 5-10%. But broadly what that meant is that ODCE funds, so the 25 funds or so, they were almost -2.5%, we use simple math, -2.5% for the quarter NAV with 1% positive net income. So for a -1.5% net return in Q2. We disagreed with that very fundamentally from a valuation perspective and our numbers came back almost exactly in line with where the index would have fallen in Q2. And we kind of came back and said, "Look, we want to make much more reasonable conservative approaches to valuations."

Because what happened in the financial crisis last time was taking these small bites at the apple resulted in quarter after quarter kind of just following the same methodology, but then institutional investors that want to come in are going to say, "When have you impaired the portfolio to the point where I now buy in at a discount?" And so we've cut retail rents in the portfolio by 6% in our valuation, multi-family rents by another 2%, kind of increased discount and cap rates. And we came back to Altus and said, "We're going to take a 7.5% NAV impairment, add back 1% for negative income," and that would make us the bottom performer for that quarter.

**Joshua Deringer:** I think Sean froze.

**Randy Anderson:** I'll pick up with it. I think that the moral of the story is that everybody's funds are a little bit different and you've got to spend a lot of time thinking about your valuation procedure. Because 100% of the time when you do get an examination, whether it's through your auditor who's going to say, "Hey, you're not doing this right in the interim." Or whether it's through your compliance firm inside or outside, or whether it's through your ultimate SEC exam,

your procedure needs to be defined, you need to follow it, it needs to be reasonable, you need to apply it in a good way all the time. And everybody's going to have a little bit of a different process but it needs to make sense.

It needs to make sense so you're not systematically over or undervaluing your portfolio. Nobody's ever on an illiquid asset going to get it right but you need to be consistent and thoughtful. If the world's moving down and your assets are moving up, maybe something's wrong with that. And if the world's moving up and you're moving down, maybe something's wrong with that. It also needs to have a gut check component to it that it makes sense.

And so I think the big moral of the story too is, before you launch a fund, make sure that you've just talked to everybody. Talk to good council. You've been involved in interval funds. One of the things that I'm sure you consult your clients on, "Let's talk about this valuation process." Make sure it's locked and loaded and then bring in your compliance room. Make sure they're signed off on it. Talk to the auditors about it. And auditor can't guarantee that your process is perfect but they're very helpful service providers that can be thoughtful in helping you do things that are reasonable.

This industry is still pretty small, call up your relative competitors, we talk amongst each other to make sure that we're using best practices and you learn a lot. And the third-party accounting firms are pretty good too because they manage a lot of the funds, so I think Altus is one of the bigger ones, Gemini is another one that does it. There's others, State Street, Bank of New York, they also have experts on fair value and accounting and best practices, but make sure you've got a process and doggonit, follow the process that you write down too. I know you as a lawyer, you would certainly probably echo that.

**Joshua Deringer:** Absolutely. This is an area you can guarantee nobody's price will be right. There's no right answer so have the process be fulsome, consistent. Yeah, it's about the process. And actually with that, that takes us pretty much exactly to the hour. I'd say thank all three of you, but I think we lost one of our panelists to the internet.

**Svitlana Gubriy:** We definitely need more investment in infrastructure in data centers.

**Randy Anderson:** Yeah, I'm going to echo. I think one of the better opportunities out there is actually liquid real estate right now. Honestly, it is at a discount and you can barbell it, you can actually play the growth market. If you're thoughts are that data centers, and infrastructure, and cell towers are the way because we're going to work from home, you could use that and express that. If you think that the economy's opening back up and you want to take some things that are at 50-60% discounts, you can go play retail, you can go play hotel and grab some outsized returns. Or you can blend it, it's a nice place in order to active manage, and I know Svitlana does a great job with her fund of actively managing it, looking at what those right trends are in growth. Thank you guys a lot for inviting me. Thanks for having good panelists, I enjoyed it very much.

**Joshua Deringer:** Thank both of you, and thank you to our audience. Take care and be well everyone.

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